WHO INHERITS YOUR IRA, THE IRS OR YOUR HEIRS?

AMERICA'S TAX SOLUTIONS™

WHO INHERITS YOUR IRA?

WHY THIS QUESTION IS SO IMPORTANT

Who will get the money in your IRAs if something happens to you? You may think you know the correct answer but may be surprised to learn that Uncle Sam, in his tax man guise, could take 40% - 95.7% of your IRA assets if a Multi-Generational IRA (MGIRA) strategy is not implemented[1]. Remember, when setting up your *tax-deferred* retirement accounts, the tax man became your silent partner and you agreed to pay him the taxes sooner or later. Unless your retirement plans are set up correctly, the United States government may be the PRIMARY BENEFICIARY of your IRA… the good news is it doesn't have to be that way!

Many people are focused on accumulation and building up their nest egg yet once retired, they are worried about outliving their retirement funds and having to face the prospect of re-entering the job market during a time they should be enjoying their Golden Years. The first thing you need to understand is that an MGIRA strategy does **NOT** take any money from you while you still need it. This strategy only affects what happens if you die leaving behind any of your IRA assets or other retirement plan assets to your beneficiaries. This strategy costs you *nothing*.

Without a Multi-Generational distribution plan, your beneficiaries could get hit with a huge tax bill that could literally take it all and leave your heirs with nothing. Who do you want getting the money you worked your whole life to save? Your heirs or the federal government?

Even though we routinely use the term "IRA," this discussion is relevant to all retirement or pension plans to some extent. The very first thing you must do is check with your IRA, 401(k), 403(b) or other retirement plan *custodian* to see who your listed beneficiaries are on file. You may be surprised to find out what those documents actually say, especially if you completed the paperwork several years ago or have experienced life changing events.

Keep in mind that mergers, acquisitions, bank closures, computer data migrations and such happen frequently and there is a certain error rate associated with these procedures. Even if you have designated beneficiaries in the past, it is possible that your *current* files are incomplete or could have been lost. You may have experienced major, life-changing events since you initially filled out your beneficiary designation paperwork or since the last time you updated it. You should check *at least* once a year to see who you have listed as your beneficiaries. Do not assume other documents such as divorce decrees, prenuptial agreements or a will can take the place of proper beneficiary designation forms–they do not and will not.

[1] Varies depending on the state of domicile.

MULTI-GENERATIONAL IRAS

For your beneficiaries to continue enjoying the benefit of tax-deferred growth on IRA assets they inherit from you, they must be allowed to "stretch" distributions over their individual life expectancies. This option is available only if it is permitted under your IRA custodial agreement or plan document and only if certain steps are taken. Although custodians are *permitted* to offer Multi-Generational distributions, they are *not required* to offer you this strategy. In this article, we provide a high level overview of the Multi-Generational IRA "stretch" concept and the steps that must be taken to ensure that it is available for your IRA beneficiaries.

Multi-Generational IRA Defined

The term Multi-Generational IRA (MGIRA) is not an official term, but is used in the retirement planning industry to refer to the ability of your designated beneficiaries to stretch IRA distributions over their individual life expectancies. For instance, assume that an individual inherits an IRA and, based on his age, IRS regulations allows him to stretch distributions over a 30-year period. This means that, providing he withdraws 1/30th of the IRA balance each year, he is allowed to enjoy tax-deferred growth (or tax-free in the case of a Roth IRA!) on the investments comprising the remaining balance in the IRA for approximately 30 years.

Keep in mind that this strategy is designed for those IRA owners who will not need the money in the IRA for their own retirement. This strategy specifically addresses the issue of ensuring that your heirs, not the tax man, will receive the remaining balance of your IRA and other retirement plan assets.

To illustrate how an MGIRA strategy works, consider the following scenario:

Alice is 64 years-old and ready to retire. She has $300,000 worth of retirement assets. She would like to leave some of the assets to her favorite charity and the rest to her two children, Sue and Bob.

Here is how Alice can use an MGIRA strategy in her estate planning:

When she retires, Alice rolls over her retirement plan benefits into three separate, traditional IRAs. She consolidates her assets so that she has three IRAs with a beginning balance of $100,000 each. As long as she has her current plan custodian transfer the assets *directly* into the new IRAs, commonly referred to as a trustee-to-trustee transfer, there will not be any tax consequences as a result of those transfers. (A "custodian" in this context is the company or financial institution that controls your IRA).
Alice then names Sue as the designated beneficiary of the first IRA, Bob as the designated beneficiary of the second IRA, and the charity as the beneficiary of the third IRA.

Alice is only 64 years old and does not need the money, so she decides to postpone distributions from the accounts and let all three IRAs continue to grow tax-deferred until

she reaches age 70½. Federal tax law requires traditional IRA owners to begin receiving required minimum distributions (RMDs) based on the owner's life expectancy no later than April 1st of the year following the year the owner turns age 70½.

Assume that by the time Alice begins her IRA distributions, the IRAs have each grown to $250,000, a total of $750,000 for all three. Based on her remaining life expectancy, as determined using the IRS life expectancy table in IRS Publication 590, Alice would have to withdraw about $27,000 in RMDs at age 70½ from the aggregate of the three IRAs. Each year, the new custodian of Alice's IRAs will calculate the RMD amount for her.

After Alice's death, Sue and Bob may continue to receive annual distributions from the IRAs based on *their* individual life expectancies. Sue and Bob will each be responsible for paying income taxes on the IRA assets they receive as distributions, but they will only be taxed on the actual amount they each withdraw each year. Absent an MGIRA strategy, Sue and Bob could get hit with a huge tax bill, potentially draining the funds that Alice intended to last for years to come.

The charity, on the other hand, may be able to withdraw all of the assets from its inherited IRA *tax-free* if it is a qualified charity. Many charities are tax-exempt and qualified charities do not have to pay any income tax on any distributions or a lump sum received from a donor's retirement plan.

In a real world example, a California teacher worked her whole life to accumulate approximately $1.2 Million. Sadly, she suddenly died just six months after she retired. Her beneficiary forms that were on file with the custodian failed to properly name ANY beneficiaries and her estate was the default beneficiary, per the plan agreement. Her children ended up only receiving a total of $300,000 – the other $900,000 went to pay taxes to the state and federal governments. Had her loved ones been able to keep the retirement assets in a tax-advantaged wrapper, they could have easily received approximately $4 million in lifetime distributions[2].

[2] This illustration projection assumes a 5% annual rate of return.

HORROR STORIES

Source: The New York Post article, *Pension Pickle*, by Zach Haberman, January 31, 2005. A widower lost his wife's pension that was worth nearly $1 million when it was awarded to her sister. As the story goes, Anne Friedman had completed a beneficiary form four years before she met and married Bruce. Anne and Bruce were married for over 20 years but Anne never changed the beneficiary designation on her pension plan. Anne had named her mother and uncle (both deceased) as primary beneficiaries and named her sister as the contingent beneficiary. Anne was a teacher in the New York public school system, which is **exempt** from the *Employee Retirement Income Security Act's* (ERISA's) provision that requires a spouse to sign a document specifically opting-out of inheriting a pension. The New York Courts held that they could not inquire into Anne's *intensions* and their ruling must be based upon the beneficiary paperwork on file.

Source: On the Docket, United States Supreme Court News, *Kennedy v. DuPont Plan Administrator*, January 26, 2009. William Kennedy divorced his wife Liv. As part of the divorce decree, Liv gave up her claim to William's pension plan, but William never changed the actual beneficiary designation forms, even though he intended for his daughter, Kari, to receive the pension assets. When William died, Kari produced the divorce decree but the Plan Administrator refused to pay her because her father never changed the official beneficiary designation form. Also, Liv never signed a waiver opting out of his pension plan, as would be required under ERISA. Since Liv was dead by the time this case made it to the Supreme Court, Liv's new husband and her designated beneficiary (the man she divorced William for!) ended up receiving the pension funds.

Source: Plan Sponsor Magazine, *Greenebaum Doll & McDonald, PLLC v. Debbie D. Sandler, Shannon Sandler et al. and Chris Meinhar*, February, 2008. Debbie and David Sandler decided to get married. Before they made it official, Debbie signed a pre-nuptial agreement releasing any claim she may have with respect to David's pension plan. David intended his pension plan to go to his children from a prior marriage. The marriage between Debbie and David did not work out and they were in the process of getting a divorce when, tragically, David committed suicide. David's children attempted to claim his pension assets but Debbie stepped in and said, "Not so fast" and made her own claim. The Court held that ERISA trumped the pre-nuptial agreement. David never asked Debbie to sign a *spousal* waiver, even though the pre-nuptial agreement evidenced her promise to do so. Since the terms contained in a pre-nuptial agreement is not a valid *spousal waiver* under ERISA, Debbie got everything and David's children never saw a dime of the pension that David truly wanted them to have.

Conclusion: These "horror stories" are real events and it is our intent that they grab your attention and will perhaps motivate you into doing your own retirement distribution planning for your IRAs and other retirement plans. Designate your primary and contingent beneficiaries and keep those beneficiary forms current! When appropriate, get a valid spousal waiver on file with your custodian if you want to leave retirement plan assets to

someone other than your spouse and especially if required to do so under ERISA or applicable individual state laws. Whenever you experience a major, life-changing event such as marriage, divorce, birth or death of a loved one, make updating or changing your primary and/or contingent beneficiary designations a priority.

THE CONCEPT OF MULTI-GENERATIONAL IRAS

Individual Retirement Arrangements or IRAs, serve two primary functions in retirement planning: income or legacy. A working individual may contribute to an IRA over his or her lifetime with the intension of creating income during retirement and perhaps supplementing other investments or Social Security benefits. Other individuals may be able to sustain their lifestyles without ever needing to tap into an IRA (required minimum distributions aside). The undistributed portion of an IRA could be passed to a surviving spouse, children, or grandchildren-that is a legacy strategy.

When it comes to planning for your retirement and taking care of your family, there are quite a few options for you to consider. One of those is a Multi-Generational IRA strategy, which is becoming much more popular in estate planning. Many people put money into an IRA with the intent of using that money to support their lifestyle during retirement. Some people can enjoy a nice retirement without ever using the bulk of the money they have saved in their IRA.

A Multi-Generational (MGIRA) is essentially a wealth-transfer strategy that creates an opportunity to pass down your assets to younger beneficiaries, extending the period of tax-deferred earnings on those IRA assets. Actually, the MGIRA concept is not new. It has been around since 1999 when the Internal Revenue Service (IRS), in a Private Letter Ruling, stated that a man who inherited his mother's seven-figure IRA could name his own beneficiaries.

The MGIRA concept was further refined in 2001 when the IRS simplified IRA guidelines and eliminated most of the old, complex pay-out rules. This included the landmark revision of the Required Minimum Distribution Table for IRA owners. Lower required minimum distributions (RMDs) allowed IRA owners to reduce the amount of annual mandatory withdrawals thus reducing annual income tax liability.

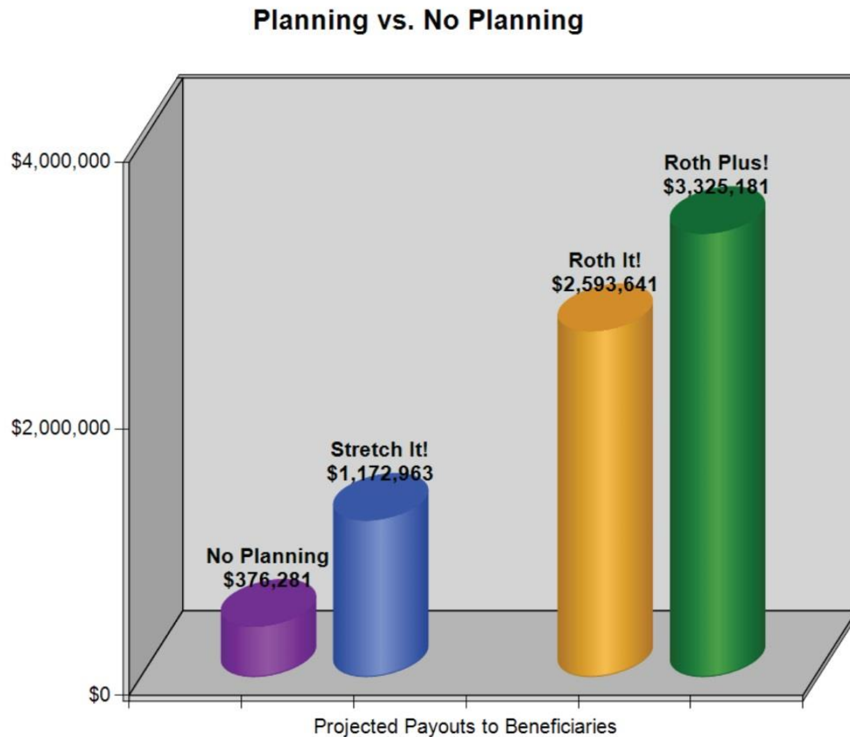
An Enormous Opportunity

This created an exciting new opportunity for IRA owners. Lower RMDs made it possible for IRAs to actually outlive their owners! The great news did not stop there. The new IRS RMD table made it possible for an IRA to outlive your designated beneficiaries!

This is black and white in the Tax Code. No smoke, no mirrors and no exotic sales chatter. The IRS has acknowledged that people in our country are living longer and have therefore reduced the minimum withdrawal amount for IRA RMDs each year. Because

the IRS has embraced Multi-Generational planning, you now have an opportunity to create a legacy of income for your children and grandchildren.

To illustrate, a 65 year old male with a $300,000 IRA can potentially create millions in wealth, leaving a legacy for his family. See the chart below:



That is correct, you can have an IRA that can live longer than you do and greatly benefit the lives of three generations of your family!

Remember, the MGIRA concept may be used for IRAs, 401(k)s, 403(b)s and SEP-IRAs. Currently, there is approximately $14 Trillion in retirement funds in the United States waiting to be stretched. So why hasn't MGIRA planning caught on like wildfire? Is it too good to be true?

The Multi-Generational Limit

An inherited IRA cannot be "stretched" beyond the initial applicable life expectancy. In fact, all successor beneficiaries are subject to the life expectancy period that applies to the *first* beneficiary. The following example illustrates this:

Tim, an individual who was age 56, inherited an IRA from his father. Tim was required to begin distributions from that inherited IRA the following year, when he was 57 years old and his life expectancy was 27.9 years. Tim died a year later. His successor beneficiary, who was his 25 year-old son Jim, may continue the distributions over Tim's remaining life

expectancy. Jim cannot use his own life expectancy because he was not the first generation beneficiary of that IRA.

Spouse Beneficiaries and Multi-Generational IRAs

Spousal beneficiaries have more options than non-spouse beneficiaries of an IRA. A spouse beneficiary may elect to treat an inherited IRA as his or her own. Such an election would treat the spouse as the first-generation beneficiary. For instance if Tim, in the example above, was the surviving spouse of the deceased IRA owner, and elected to treat the IRA as his own, the IRA would maintain no trace of ownership from the original owner. Consequently, after Tim died, his son Jim would be able to use his *own* life expectancy (not his father's) to calculate post-death distributions. This would allow Jim to “stretch” distributions over his remaining life expectancy of approximately 58 years, instead of the 26.7 years that would apply if he were a second-generation or successor beneficiary.

What If Your IRA Custodian Does Not Allow a Multi-Generational Strategy?

Most financial service institutions allow beneficiaries to stretch distributions over their individual life expectancies. Unfortunately, not all allow you to use this strategy and they are not required to offer this option. In most cases, the IRA custodial agreement or retirement plan documents will indicate whether this is an available distribution option for you and your designated beneficiaries. But to be sure, you must check with your financial institution and, specifically, the custodial agreement that corresponds to your individual IRA. The custodial agreement is your contract with the company and determines whether your particular IRA permits your beneficiaries to utilize a Multi-Generational strategy. Bear in mind that your financial institution may not use the term “Multi-Generational.” Again, this is a strategy and the key is to ask the right questions and make sure the answers provided are what you need to hear. If your financial institution does not offer an MGIRA option, you may want to consider transferring your IRA to a financial institution that does.

The Tax Bite

When it comes to IRAs and taxation, first, you must consider income tax. You will have to pay both federal income tax and state income tax (when applicable) on any qualified retirement plan distributions you receive during your lifetime. Any remaining tax-deferred contributions and account earnings distributed to your family after your death will also be subject to income taxation. At present, federal income-tax brackets range from 10% to 39.6%.

Next, there is estate tax to consider. For 2014, the exemption for estate, gift, and generation-skipping taxes has been increased to $5.34 million. Depending upon the size of your estate, your plan assets may be subject to estate tax at rates as high as 39.6%. If you leave the assets to your grandchildren, your estate may have to pay a 40% generation-

skipping transfer tax as well. In a worst-case scenario, your retirement assets could be reduced by 80% or more before your heirs get to enjoy those assets!

Other Benefits

Stretching assets over several generations isn't the only benefit offered by a Multi-Generational planning strategy. Your estate may be able to claim a charitable deduction for the full fair market value of the IRA assets the charity receives, eliminating federal estate tax on the assets. In addition, your beneficiaries may be able to claim an income-tax deduction for any estate tax paid on the IRA assets they receive.

Insurance may be a better way to handle estate taxes. When using an MGIRA strategy, you could also set up an irrevocable life insurance trust (ILIT) for your beneficiaries. A trustee purchases insurance on the owner's life in an amount that would cover any potential estate tax and, if the owner chooses, replace any assets that are being left to a charity.

As long as the IRA owner retains no incidents of ownership in the insurance policy, the proceeds will not be included in the taxable estate. Additionally, the beneficiaries will not have to pay income tax on the insurance proceeds. They effectively would receive all of the IRA assets with the added bonus of receiving some of the assets free of *income tax*.

Is a Multi-Generational IRA strategy the right strategy for you? It depends on you and your family's personal situation. Your professional advisor can help guide you and your heirs through the available planning options to assist you in making that decision.

We Can Do Better!

After you have taken care of your spouse, you will have two choices with respect to your IRA:

1) Provide income for your children or
2) provide income for the government.

Which do you prefer? There is nothing wrong with paying your fair share of taxes but, as legendary broadcaster Arthur Godfrey once said, "I'm proud to pay taxes in the United States; the only thing is, I could be just as proud for half the money."

With proper planning, instead of cashing out your IRA in one lump sum and paying potentially 80% of it to the government, the government now allows your children (or other named beneficiaries) to take withdrawals from the IRA they inherit from you based on *THEIR* individual life expectancies. By doing this, your beneficiaries can continue the power of tax-deferred growth over a longer period of time to maximize the amount of money distributed from your IRA, and thus maximizing their inheritance.

You must be careful…there are two things that can destroy your good intentions of Multi-Generational distribution planning:

1) Your beneficiaries and
2) your IRA custodian.

Your beneficiaries may not even be aware of the potential MGIRA opportunities that you made available to them and what it could mean for their financial future. It may be an uncomfortable conversation for you to have, but what is a little discomfort compared to gaining potentially thousands or even millions of dollars over their lifetime in distributions? It is also *crucial* that you review your IRA beneficiary designation forms every year to make sure everything is up to date. If your beneficiary designation forms have not been reviewed within the past twelve months, you should do this **immediately**.

Another thing you need to be aware of is the fact that your IRA custodian (the company that controls the terms of your IRA) may have strict rules governing the distribution of your IRA assets. It is not uncommon for an IRA custodian to refuse to stretch distributions of an IRA over a beneficiary's life expectancy, and instead, require the entire balance to be distributed in a lump sum, over a five year period, or over the life of expectancy of the IRA owner, therefore reducing the power of tax-deferred growth. Each custodian will have its own set of rules and procedures so it is important for you to understand how each IRA custodian will handle the distribution of your particular IRA after you pass away. For a list of ten questions that you should *always* ask an IRA custodian, contact our office immediately.

How can you avoid these two pitfalls? There are a couple things you should consider when planning for the distribution of your IRA to your heirs. First, you might consider using a trust to control the distribution of your IRA assets…this, however, is not the most tax efficient option (but it is an available option). Second, you could consider a tax efficient option by rolling over your IRA assets to a custodian that will administer the distribution of your IRA based on *your* wishes and desires.

What You Need to Know About a Trust

A trust can be a very valuable tool in estate planning but it can also be a potential disaster for IRA distribution planning, especially if it is not set up correctly. Typically, to be able to use an MGIRA strategy, you must name natural persons as your designated beneficiaries. An MGIRA strategy CANNOT be used with a trust.

What happens if you do not name a natural person as a beneficiary and name your estate, a charity or other entity? Simple, the entire IRA balance will likely be required to be paid out over five years and your heirs will be hit with a heavy tax burden, losing the powerful benefit of compound interest on your IRA.

The IRS has explicitly stated that **a trust cannot be a designated beneficiary** of an IRA, period. However, you may be able to "stretch" IRA distributions over the life expectancy of the *oldest* identifiable beneficiary of the trust, but only under very specific circumstances. The trust must qualify as "see-through" or "look through" for beneficiaries of the trust to exercise a limited stretch option.

To qualify as "see-through," a trust must at least comport with the following basic IRS requirements:

1) it must be valid under state law;
2) it must be irrevocable (not able to be changed) upon the death of the IRA owner;
3) the beneficiaries must be identifiable from the trust instrument; and
4) the documentation requirement must be satisfied.

*You should use an attorney who *specializes* in this area of trust law if you want to consider this option.

Some IRA Trust Advantages:

- Gives you control over who will inherit your IRA assets and the amount each beneficiary may withdraw (to protect heirs from themselves). For example, you may have a beneficiary who is incapable of handling finances or a beneficiary with some bad habits you do not wish to finance.
- Protects your IRA from the "out-laws" (former in-laws). Your children's spouses could take up to half of YOUR IRA in a divorce. Even if your children are not currently married, a future spouse could be, to put it simply, a "gold digger" and marry your child for the wrong reasons.
- May help minimize <u>estate</u> taxes for each beneficiary.
- May protect a beneficiary that is receiving government benefits.
- May offer creditor protection for your beneficiaries.

IRA Rollovers

One important thing to consider when rolling over your IRA is how the custodian will handle the distribution of those assets. If your current custodian will not distribute the IRA over each beneficiary's life expectancy, you should strongly consider relocating your IRA to a custodian that will honor your wishes. Before you roll over your IRA, it's important that you talk with a qualified advisor, accountant and/or attorney about the advantages and disadvantages of relocating your IRA.

"You don't choose your family. They are God's gift to you, as you are to them."
– Desmond Tutu

Potential Advantages of Rolling Over Your IRA to a New Custodian:

- You may have more IRA investment choices.
- There may be more and/or better distribution options for your IRA assets.
- You may have the option of converting to a Roth IRA.
- You may have the ability to consolidate your IRA accounts and keep better track of your IRA records. (Please keep in mind, however, that there are situations where keeping your IRA accounts separate may make more sense).
- You may have the ability to work with a custodian and advisors who *specialize* in retirement distribution planning and can offer you more suitable, yet objective advice.

MULTI-GENERATIONAL IRAS: A TAX STRATEGY FOR HEIRS

1. Name Your Beneficiaries and Designate the Percentage Each Shall Receive

This whole strategy revolves around you specifically naming beneficiaries and keeping your designations current. The key to correct beneficiary designations is that each beneficiary must be named along with a specific *whole* percentage (s)he shall receive. For example, you may say, "John Doe 33%, Jane Doe 33% and XYZ Charity 34%", but *not* "John Doe, Jane Doe and XYZ Charity equally" as the amounts are not designated, *nor* "My children, and XYZ Charity split equally" as the names of the children and the amounts are *not* designated. If you do not specifically name beneficiaries and designate the whole percentage amount they are to receive, those heirs will not be able to maximize the IRA's tax advantages. This error can cause heavy, immediate and unnecessary taxation, costing your beneficiaries most or ALL of their inheritance. There is, however, a solution at your fingertips: with some distribution planning, your IRA can pass to your heirs with its wealth intact. Your heirs will be required to take annual RMDs based on their individual life expectancies, but the remainder of the IRA assets can continue to grow on a tax-deferred basis.

If your custodian permits an MGIRA strategy, be sure that you also name all of your *contingent* and *tertiary* beneficiaries as well as their respective percentages. Review your beneficiary designation forms regularly to ensure that the distribution strategy you want is being maintained and that your custodian has not since changed the rules, i.e., via an amendment to the terms of your original agreement.

2. Do a Custodial Review

Your IRA's custodian is the brokerage, bank or other entity that holds and controls your IRA. You need to make sure that your *custodian* will allow an MGIRA strategy.

“What?? You mean a custodian doesn’t have to allow this tax strategy?” NO, it does not. When you signed all of your paperwork to set up your retirement plan, you basically gave your custodian control over your IRA and agreed to all of the terms. You would probably be surprised to learn what you have really agreed to.

There is at least one popular custodian that did not allow trustee-to-trustee transfers of non-spousal IRAs – meaning if you named your grandkids as beneficiaries, they would have to stay with that custodian to maintain the IRA status, which means that the custodian held IRAs hostage. A few years ago, another popular custodian disinherited a bunch of people when the company made a blanket decision to only allow a *single* designated beneficiary. After this particular custodian made that drastic decision, to facilitate the change they selected the oldest named beneficiary on everyone’s IRA as the designated beneficiary but they failed to inform anyone about this, they just did it!

Remember, you have the power to vote with your feet. If a custodian will not allow you to use an MGIRA strategy, then you can do a trustee-to-trustee transfer to a custodian who will.

The following bears repeating:

IRA beneficiaries must be specifically named and have designated whole percentages of the IRA they are to inherit. The custodian must have this information AND permit an MGIRA strategy.

3. Special Paperwork

You should sign a testament and give it to your beneficiaries for *their* tax records in the event they do inherit your IRA. Basically, your testament should state that your beneficiary designation is *unconditional*. IRA distributions cannot be restricted. Unfortunately, your beneficiaries must be allowed to do foolish things like take all of the money at once in a lump sum and pay exorbitant taxes, if they want to. Most of us didn't sacrifice and save our entire life, contributing money into our IRAs, just to pay 39.6% of it to the government, then have our kids go out and blow the rest on a brand new Lamborghini. You can, however, certainly discuss the MGIRA strategy with your heirs TODAY before it is too late. Although you cannot *require* beneficiaries to adopt a MGIRA strategy, you can help educate them and inform them of the tremendous benefits and significant increase in their inheritance that may result from maintaining the MGIRA strategy you set up for them.

4. Other Comments

It is important you name real, *living persons* as your beneficiaries. Dead people and things, such as trusts, or entities do not work. The whole idea is to keep your IRA “alive” and growing for at least as long as your beneficiaries’ life expectancies. You can also buy insurance to help your heirs pay the taxes on your IRA too. The topic of insurance is

beyond the scope of this discussion, but you may consult your professional advisors for more information on how it may help you and your family.

AVOIDING COMMON IRA MISTAKES

"No one is useless in this world who lightens the burdens of another." – Charles Dickens

How many times have you heard the old saying, "With change comes opportunity"? Never has this been truer than when it comes to the changes with IRA rules and taxation. There have been several major changes to IRA tax laws and regulations over the years, including the Economic Growth and Tax Relief Reconciliation Act of 2001, Jobs and Growth Tax Relief Reconciliation Act of 2003, culminating with the Pension Protection Act signed into law on August 17, 2006. What is the government telling us with these constant changes to IRA rules and regulations? They are telling us, "We need you to save more for your retirement."

Corporate pension plans have greatly diminished over the years and the future of our Social Security system is in question because of this. It's very possible that the government may not even be able to meet the retirement needs of your children and grandchildren. (Heck, they may not be able to meet *your* needs.) Through these continuing changes to IRA rules, the government is sending a clear message: the American public needs to accept more responsibility for their own retirement. The government has given IRA owners every opportunity to maximize not only their retirement savings, but permits them to use their IRA to provide for future generations.

Your IRA can be a very powerful financial tool that can provide an income stream for you and your loved ones if you know how to take advantage of the opportunities that are available. With uncertainty ahead, it has become necessary for you to educate yourself on how you can protect and provide for yourself and for your loved ones. This educational guide has been developed to help you do exactly that. Our primary goal is to help you understand the opportunities available with your IRA because, unfortunately, if you do not take advantage of them, the long term impact on your retirement, children and grandchildren is at risk.

Albert Einstein said "The most powerful force in the universe is compound interest." One of the reasons an IRA can be a great accumulation tool for retirement is because of this powerful force. You do not pay any taxes on your IRA until you start taking withdrawals. This allows an IRA to grow through compounding interest. This means that your IRA can earn interest in three ways: 1) on your contributions into the IRA; 2) interest the investments earn; and 3) on money that normally would have been paid in taxes.

Because of this triple compounding effect, it is typically a smart idea to take income from other sources and defer taking any income from your IRA until you reach 70½ and are

required to take RMDs. How long will that be? When will you reach the age of 70½ or have you already reached your RMD beginning date?

After your turn 70½, the government forces you to take your first RMD no later than April 1st of the year after you turn 70½. This minimum amount will be based on factors such as your age, the total balance of all your qualified assets, and in some cases, even the age of your beneficiaries. It is very important that you take at least your minimum distribution every year after turning 70½, there is a reason it's called *required minimum* distributions... there are severe penalties if you don't take them. If you fail to take your full RMD each year, you will face a 50% TAX PENALTY!

How do you calculate your RMD? Your required minimum distribution is based on a uniform life expectancy table. You must take your account balance on December 31st of the prior year and divide it by the uniform life expectancy table to determine the minimum amount that you must withdraw from your IRA (and pay the applicable income taxes).

To illustrate, please see the example below:

Example: Age 70	
Age of Owner	**Life Expectancy**
70	27.4
75	22.9
80	18.7
85	14.8
90	11.4
95	8.6
100	6.3
$\frac{\textbf{Account Balance}}{\textbf{Life Expectancy}}$ **= RMD**	$\frac{\textbf{\$500,000}}{\textbf{27.4}}$ **= $18,248**

CONCLUSION

Who should benefit from your retirement assets? You and your family, or the coffers of the federal and state government? The answer is easy: you and your family, of course! Achieving that goal is more difficult. These days, very few people stay at one job for their entire careers. By retirement, you and your spouse may have assets in four, five or even more employer-sponsored retirement plans and IRAs. How you utilize those accounts at retirement can make a HUGE difference in the amount of assets you will have available to pass on to your children, grandchildren or other heirs.

You have an opportunity to give your family a tremendous gift with your IRA if you take the appropriate steps. The first and most important step is correctly designating your beneficiaries. If they are not set up correctly, your loved ones could be disinherited, even your spouse could be inadvertently disinherited. A simple piece of paper and a signature are all that stands between you and the government taking up to 80% of the money that you worked for your whole life for, or creating opportunities for your beneficiaries to be able to grow your IRA assets in a tax-advantaged manner. Again, an MGIRA strategy costs you nothing to set up and takes no money from you while you are still alive.

A Multi-Generational IRA strategy is one of the most important financial and estate planning tools for IRAs. Be sure to review your IRA plan documents carefully and make sure this strategy is available before you sign the IRA agreement. Please do not hesitate to contact us if you need professional assistance, including assistance with reviewing your current IRA plan documents to ensure they meet your financial and estate planning needs.

HELP IS WITHIN YOUR REACH

We can help you:

- Review your current beneficiary designations.
- Select the correct beneficiaries to ensure your wishes are met and your family is provided for.
- Determine if a trust would be beneficial for your IRA distribution planning.
- Discuss the potential advantages of an IRA rollover.
- Determine when your required minimum distributions must be taken and how much they will be.
- And most importantly, help you take care of your family and turn your IRA into a blessing that provides for your heirs long after you have passed.

We hope this educational guide has provided you with a vision of how an IRA can provide a lifetime of income for you and your loved ones. But remember, “A vision without action is a daydream; action without vision is a nightmare.” If you care about your family and their financial future, please take action now to guarantee your IRA will provide for them. Years from now, they may not have other options available to them.

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